

STAT



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D. C.

#188

DPS 3186
1 3

REPLY TO:

Auditor General
Comptroller, USAF
Hq Western District
1206 Maple Avenue (Room 916)
Los Angeles 15, California

4 August 1958

SUBJECT: Supplement to Report on Price Redetermination Audit
Contract FL-3011, Items 7, 10, 11, 12, 13, 14, and 15, Appendix I
Westinghouse Electric Corporation
Air Arm Division
Baltimore, Maryland

REF: Document #19086, 5 September 1957, and Basic Report, 31 January 1958(#79)

TO: Contracting Officer

1. Purpose of Supplement to Report: In regard to the pending price redetermination negotiations for subject contract items, the contractor desired to present for consideration the actual manufacturing costs incurred. This data and the review thereof form the basis for this supplement to report.

2. Results of Audit as Revised: The results of audit as revised to give effect to the actual manufacturing costs incurred and the General and Administrative Expense applicable thereto are set forth in attached Exhibit A. Of total costs of \$2,156,864 in contractor's proposal, the amount recommended for acceptance is \$1,948,178. This recommendation is subject to consideration by the Contracting Officer of the following:

a. Appropriate settlement for the value of residual material of the entirety of the contract, the inventorying of which by the contractor is in process; also, accountability satisfactory to the customer for all property which the contractor has been requested to provide.

b. The question of tooling and engineering costs in relation to the two systems which the contractor intended to produce for its own use, which is explained in paragraph 4a of basic report.

c. The auditor did not ascertain whether the purchase orders referred to in paragraph 4c of basic report have since been approved by the Contracting Officer.

- approved 25 Apr 58 - Ltr # 26692

STAT

#188, Suppl to Rept on PR Aud, Contr FL-3011, Items 7, 10, 11, 12, 13, 14, and 15, App I, Westinghouse Elec Corp, Air Arm Div, Baltimore, Md., 4 Aug 58 - (cont'd)

d. Prior to his departure from contractor's facility on 18 July 1958, the auditor requested for his retention a copy of the general and administrative expense statement for 1957. Together with this statement, he was furnished a copy of a statement revised as of 26 June 1958, which shows an increase in rate of $\frac{1}{2}$ of 1%. This increase is occasioned by a transfer to general and administrative expense of costs which had been included in engineering overhead. Inasmuch as the G&A rates utilized by the auditor were based upon advice received from the cognizant service auditor, no recognition has been here given to contractor's adjustment. Furthermore, the contractor had not given effect to the corresponding decrease in its proposed engineering costs.

3. Further Information for Contracting Officer:

a. In December 1957 and the early part of 1958, credits were recorded on the books for Contract Items 10 and 12 for termination inventory, parts used for Contract Item 16, etc. These credits account for the fact that the auditor has not utilized the 1958 G&A rate for the small amount of costs incurred in 1958. Although a substantial portion of these transferred costs were incurred in 1956, it was not deemed practical to redistribute the credits from 1957 and 1958 to 1956. Should the contractor, however, request adjustment because of the lower G&A rate for the year 1956, the G&A applications in the audit reports on Item 16 and the termination proposals would need to be correspondingly reduced.

b. As indicated in Schedule 3 of basic report, the contractor included in the price redetermination proposal an amount of \$3,535 for additional spare parts for Contract Item 15. With the consent of the contractor, this amount was included in the audit adjustments in basic report, since the requirements for the same parts had not then been approved. The contractor's files indicate that a revision for these parts, with a quotation of \$3,655, was forwarded to the Contracting Officer on 2 December 1957. Whether this revision, if approved, is subject to price redetermination is not known to the auditor at this time. The contractor stated that these items were not included in the amount of incurred costs submitted.

c. Reference is made to paragraph 4d of basic report in regard to the royalty figure of \$13,808 included in contractor's price redetermination proposal. It is now recommended that any allowance for royalty be based on evidence of an actual royalty expenditure applicable to subject contract items.

4. Netotiation Conference: It is recommended that this office be represented at the Negotiation Conference to assist the Contracting Officer on subject redetermination and the five other proposals on which audit reports or supplements to reports are being rendered at this time.

1 Incl
Exhibit A

Project Supervisor
Western District
Auditor General

Westinghouse Electric Corporation - Air Arm Division
Baltimore, MarylandSupplement to Report on Price Redetermination Audit
Contract FL-3011, Items 7, 10, 11, 12, 13, 14, and 15, Appendix ISummary of Examination of Costs

	Per Basic Report All Contract Items	Per Supplement to Report				
		Total for All Contract Items	Item 7	Item 10	Items 11, 12 and 13	Items 14 and 15
Amount of Contractor's Proposal before Adding Fee and Royalty:		1,730,534				
Manufacturing Cost -	\$ 1,843,473	\$ 1,843,473	\$ 174,152	\$ 1,000,230	\$ 467,295	\$ 201,796
G&A Expense @ 17% -	313,391	313,391	29,606	170,039	79,441	34,305
Total -	<u>\$ 2,156,864</u>	<u>\$ 2,156,864</u>	<u>\$ 203,758</u>	<u>\$ 1,170,269</u>	<u>\$ 546,736</u>	<u>\$ 236,101</u>
<u>Questioned Costs:</u>						
Manufacturing Cost:						
Amount questioned in basic report-\$ 164,156						
By representation of incurred costs to 30 April 1958, and small estimate to complete as of that date in the aggregate amount of \$1,730,534, the contractor has in effect concurred in the exclusion, as unsupportable, of the amount of \$112,939 -						
		\$ 112,939	\$ 14,021	\$ 45,518	\$ 35,138	\$ 18,262
General & Administrative Expense:						
Amount questioned in basic report - 90,729						
Amount applicable to \$112,939 at contractor's proposed rate of 17% -						
Difference between proposed rate of 17% and auditor's 1956 rate of 11%, or 6% x costs of \$1,048,403 -		19,200	2,384	7,738	5,973	3,105
Difference between proposed rate of 17% and auditor's 1957 rate of 15%, or 2% x costs of \$682,131 -		62,904	8,639	30,638	17,161	6,466
		<u>13,643</u>	<u>323</u>	<u>8,882</u>	<u>2,923</u>	<u>1,515</u>
Total - (Cont'd on page 2)						

Westinghouse Electric Corporation - Air Arm Division
Baltimore, Maryland

Supplement to Report on Price Redetermination Audit
Contract FL-3011, Items 7, 10, 11, 12, 13, 14, and 15, Appendix I

Summary of Examination of Costs

			<u>Per Supplement to Report</u>			
	<u>Per Basic Report</u>	<u>Total for All</u>	<u>Item 7</u>	<u>Item 10</u>	<u>Items 11,</u>	<u>Items</u>
	<u>All Contract Items</u>	<u>Contract Items</u>			<u>12 and 13</u>	<u>14 and 15</u>
Total	<u>\$ 254,885</u>	<u>\$ 208,686</u>	<u>\$ 253,67</u>	<u>\$ 92,776</u>	<u>\$ 61,195</u>	<u>\$ 29,348</u>
Accepted Costs (Subject to comments in paragraph 2):						
Manufacturing Cost	\$ 1,679,317	\$ 1,730,534	\$ 160,131	\$ 954,712	\$432,157	\$ 183,534
General & Administrative Expense	<u>222,662</u>	<u>217,644</u>	<u>18,260</u>	<u>122,781</u>	<u>53,384</u>	<u>23,219</u>
Total	<u>\$ 1,901,979</u>	<u>\$ 1,948,178</u>	<u>\$ 178,391</u>	<u>\$1,077,493</u>	<u>\$485,541</u>	<u>\$ 206,753</u>